

Legislative Service Bureau

Financial Statements

June 30, 2013 and 2012
(With Independent Auditors' Report Thereon)



LEGISLATIVE SERVICE BUREAU

FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

Legislative Service Bureau

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Legislative Service Bureau (the "Bureau") as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Bureau's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the Bureau as of June 30, 2013 and 2012, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States.

Emphasis of Matters

Department-Only Financial Statements

As discussed in Note 1, the financial statements of the Bureau are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and the General Fund of the State of Oklahoma that is attributable to the transactions of the Bureau. They do not purport to, and do not, present fairly the financial position of the State of Oklahoma as of June 30, 2013 or 2012, or the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States. Our opinions are not modified with respect to this matter.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, in 2013 the Bureau adopted new accounting guidance, Statement No. 63 of the Governmental Accounting Standards Board (GASB), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages I-1 through I-5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

The Bureau is not required by statute to prepare a line-item budget. Accordingly, a schedule of revenues, expenditures, and changes in fund balances—budget to actual is not presented herein.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2014, on our consideration of the Bureau's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Bureau's internal control over financial reporting and compliance.

Finley & Cook, PLLC

Shawnee, Oklahoma
January 10, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Legislative Service Bureau (the "Bureau"), we offer readers of the Bureau's financial statements this overview and analysis of the financial activities for the fiscal years ended June 30, 2013 and 2012.

Financial Highlights

- At June 30, 2013, the Bureau's net position decreased \$3,600,556 from June 30, 2012, resulting in a net position of \$869,422. At June 30, 2012, the Bureau's net position decreased \$305,949 from June 30, 2011, resulting in a net position of \$4,469,978. At June 30, 2011, the Bureau's net position increased \$441,344 from June 30, 2010, resulting in a net position of \$4,775,927.
- At June 30, 2013, the Bureau's assets totaling \$953,867 decreased \$3,642,299 due to a decrease of \$3,594,035 in cash and a decrease of \$48,264 in capital assets. At June 30, 2012, the Bureau's assets totaling \$4,596,166 decreased \$341,259 due to a decrease of \$289,724 in cash and a decrease of \$51,535 in capital assets. At June 30, 2011, the Bureau's assets totaling \$4,937,425 increased \$356,353, mainly due to an increase of \$370,671 in cash.
- At June 30, 2013, the Bureau's liabilities totaling \$84,445 decreased by \$41,743, due mainly to a \$40,582 decrease in capital leases for equipment. At June 30, 2012, the Bureau's liabilities totaling \$126,188 decreased by \$35,310, due mainly to a \$40,128 decrease in capital leases for equipment. At June 30, 2011, the Bureau's liabilities totaling \$161,498 decreased by \$84,991, due mainly to a \$40,842 decrease in capital leases for equipment, a \$22,103 decrease in accounts payable, and a \$22,046 decrease in compensated absences.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Bureau's basic financial statements and is comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statements of net position and the statements of activities) are designed to provide readers with a broad overview of the Bureau's finances in a manner similar to a private-sector business.

The statements of net position present information on all of the Bureau's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Bureau is improving or deteriorating.

The statements of activities present information showing how the Bureau's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Overview of the Financial Statements, Continued

Fund Financial Statements

Government funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. All governmental activities of the Bureau are reflected in the General Fund. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Bureau maintains one fund, which is the General Fund. Information is presented separately in the governmental fund balance sheets and the governmental fund statements of revenues, expenditures, and changes in fund balances for the General Fund. All transactions related to the general administration of the Bureau are accounted for in the General Fund.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Government-Wide Financial Analysis

The Bureau's net position at June 30 was reported as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current assets	\$ 928,311	4,522,346	4,812,070
Capital assets, net	<u>25,556</u>	<u>73,820</u>	<u>125,355</u>
 Total assets	 <u>\$ 953,867</u>	 <u>4,596,166</u>	 <u>4,937,425</u>
 Current liabilities	 \$ 56,907	 76,919	 74,897
Noncurrent liabilities	<u>27,538</u>	<u>49,269</u>	<u>86,601</u>
Total liabilities	<u>84,445</u>	<u>126,188</u>	<u>161,498</u>
 Net position:			
Net investment in capital assets	3,698	11,380	22,787
Unrestricted	<u>865,724</u>	<u>4,458,598</u>	<u>4,753,140</u>
Total net position	<u>869,422</u>	<u>4,469,978</u>	<u>4,775,927</u>
 Total liabilities and net position	 <u>\$ 953,867</u>	 <u>4,596,166</u>	 <u>4,937,425</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Government-Wide Financial Analysis, Continued

For the years ended June 30, the Bureau's changes in net position were reported as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Governmental activities:			
Contributions to the House	\$ (2,517,170)	(2,550,000)	(2,000,000)
Contributions to the Senate	(4,562,452)	(1,250,000)	(1,000,000)
Expenses	<u>(1,423,444)</u>	<u>(1,398,942)</u>	<u>(1,481,028)</u>
Total governmental activities	<u>(8,503,066)</u>	<u>(5,198,942)</u>	<u>(4,481,028)</u>
General revenues:			
Appropriations from the State of Oklahoma	4,892,835	4,892,835	4,902,835
Other	<u>9,675</u>	<u>158</u>	<u>19,537</u>
Total general revenues	<u>4,902,510</u>	<u>4,892,993</u>	<u>4,922,372</u>
Changes in net position	(3,600,556)	(305,949)	441,344
Net position, beginning of year	<u>4,469,978</u>	<u>4,775,927</u>	<u>4,334,583</u>
Net position, end of year	<u><u>\$ 869,422</u></u>	<u><u>4,469,978</u></u>	<u><u>4,775,927</u></u>

This discussion and analysis of the Bureau's financial performance provides an overview of the Bureau's financial activities for the fiscal years ended June 30, 2013, 2012, and 2011.

The Bureau's 2013 total general revenues increased approximately 0.2% from fiscal year 2012, due to an increase in other revenues. The Bureau's 2012 total general revenues decreased approximately 1% from fiscal year 2011, due to a decrease in state appropriations and other revenues. The Bureau's 2011 total general revenues decreased approximately 7% from fiscal year 2010, due primarily to a decrease in state appropriations.

The Bureau's total expenses for fiscal year 2013 increased approximately 64% due to an increase in the Bureau's contribution to the Oklahoma State Senate. The Bureau's total expenses for fiscal year 2012 increased approximately 16% due to an increase in the Bureau's contributions to the Oklahoma House of Representatives and the Oklahoma State Senate. The Bureau's total expenses for fiscal year 2011 decreased approximately 6% due to the Bureau paying fewer expenses on behalf of the Oklahoma House of Representatives and the Oklahoma State Senate, as well as the fact that no further expenses were paid for the Criminal Justice Center, as its transfer was complete prior to the end of fiscal year 2010.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Government-Wide Financial Analysis, Continued

The Bureau's 2013 appropriations from the State of Oklahoma did not change from fiscal year 2012. The Bureau's 2012 appropriations from the State of Oklahoma decreased \$10,000 from fiscal year 2011. The Bureau's 2011 appropriations from the State of Oklahoma decreased approximately \$373,000 from fiscal year 2010.

Capital Assets

As of June 30, 2013, 2012, and 2011, the Bureau had invested approximately \$599,000, \$694,000, and \$691,000, respectively, in capital assets, including computer equipment and software, office equipment, and furniture. Net of accumulated depreciation, the Bureau's net capital assets as of June 30, 2013, 2012, and 2011, totaled approximately \$26,000, \$74,000, and \$125,000, respectively. As of June 30, 2013, 2012, and 2011, these amounts represented a net decrease of approximately \$48,000, \$51,000, and \$14,000, respectively. As of June 30, 2013, 2012, and 2011, there was approximately \$4,000, \$2,000, and \$41,000, respectively, in capital asset additions.

Capital Leases

As of June 30, 2013, 2012, and 2011, the Bureau had approximately \$22,000, \$62,000, and \$103,000, respectively, of capital lease obligations outstanding for lease of office equipment. During each of the fiscal years 2013, 2012, and 2011, the Bureau paid approximately \$45,000, \$48,000, and \$53,000, respectively, in lease payments, of which approximately \$41,000, \$40,000, and \$41,000, respectively, reduced the capital lease obligation and approximately \$4,000, \$8,000, and \$12,000, respectively, related to interest expense.

Description of Currently Known Facts, Decisions, or Conditions that are Expected to have a Significant Effect on the Financial Position or Results of Operations

The Governor has approved the Bureau's appropriation for the year July 1, 2013, to June 30, 2014.

The Bureau is not required by statute to adopt a budget; therefore, budgetary comparison schedules are not required as part of the required supplementary information.

Contacting the Bureau's Financial Management

This financial report is designed to provide interested parties with a general overview of the Bureau's finances and to demonstrate the Bureau's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Legislative Service Bureau, Room 309-1, State Capitol Building, Oklahoma City, Oklahoma 73105-4801.

LEGISLATIVE SERVICE BUREAU**STATEMENTS OF NET POSITION**

<i>June 30,</i>	<i>2013</i>	<i>2012</i>
	<u>Governmental Activities</u>	
Assets		
Current assets:		
Cash	\$ 928,311	4,522,346
Total current assets	<u>928,311</u>	<u>4,522,346</u>
Capital assets, net of accumulated depreciation	<u>25,556</u>	<u>73,820</u>
Total assets	<u>\$ 953,867</u>	<u>4,596,166</u>
Liabilities and Net Position		
Current liabilities:		
Current maturities of long-term liabilities	\$ 56,907	76,919
Total current liabilities	<u>56,907</u>	<u>76,919</u>
Noncurrent liabilities:		
Capital lease obligation, less current maturities	-	21,858
Compensated absences, less current maturities	<u>27,538</u>	<u>27,411</u>
Total noncurrent liabilities	<u>27,538</u>	<u>49,269</u>
Total liabilities	<u>84,445</u>	<u>126,188</u>
Net position:		
Net investment in capital assets	3,698	11,380
Unrestricted	<u>865,724</u>	<u>4,458,598</u>
Total net position	<u>869,422</u>	<u>4,469,978</u>
Total liabilities and net position	<u>\$ 953,867</u>	<u>4,596,166</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

LEGISLATIVE SERVICE BUREAU

STATEMENTS OF ACTIVITIES

Year Ended June 30, 2013

		<u>PROGRAM REVENUES</u>		
	<u>General Expenses</u>	<u>Charges for Services</u>	<u>Federal Operating Grants</u>	<u>Net (Expenses) Revenues/Changes in Net Position</u>
Governmental activities:				
General government support services	\$ (1,423,444)	-	-	(1,423,444)
Contributions to the House	(2,517,170)	-	-	(2,517,170)
Contributions to the Senate	(4,562,452)	-	-	(4,562,452)
Total governmental activities	<u>\$ (8,503,066)</u>	<u>-</u>	<u>-</u>	<u>(8,503,066)</u>
General revenues:				
Appropriations from the State of Oklahoma				4,892,835
Other				<u>9,675</u>
Total general revenues				<u>4,902,510</u>
Changes in net position				(3,600,556)
Net position, beginning of year				<u>4,469,978</u>
Net position, end of year				<u>\$ 869,422</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

LEGISLATIVE SERVICE BUREAU

STATEMENTS OF ACTIVITIES, CONTINUED

Year Ended June 30, 2012

		<u>PROGRAM REVENUES</u>		
	<u>General</u> <u>Expenses</u>	<u>Charges for</u> <u>Services</u>	<u>Federal</u> <u>Operating</u> <u>Grants</u>	<u>Net (Expenses)</u> <u>Revenues/Changes</u> <u>in Net Position</u>
Governmental activities:				
General government support services	\$ (1,398,942)	-	-	(1,398,942)
Contributions to the House	(2,550,000)	-	-	(2,550,000)
Contributions to the Senate	(1,250,000)	-	-	(1,250,000)
Total governmental activities	<u>\$ (5,198,942)</u>	<u>-</u>	<u>-</u>	<u>(5,198,942)</u>
General revenues:				
Appropriations from the State of Oklahoma				4,892,835
Other				<u>158</u>
Total general revenues				<u>4,892,993</u>
Changes in net position				(305,949)
Net position, beginning of year				<u>4,775,927</u>
Net position, end of year				<u>\$ 4,469,978</u>

See Independent Auditors' Report.

See accompanying notes to financial statements.

LEGISLATIVE SERVICE BUREAU**BALANCE SHEETS—GENERAL FUND**

<i>June 30,</i>	<i>2013</i>	<i>2012</i>
Assets		
Cash	\$ 928,311	4,522,346
Total assets	<u>\$ 928,311</u>	<u>4,522,346</u>
Liabilities and Fund Balances		
Liabilities	\$ -	-
Fund balances:		
Assigned	-	3,640,076
Unassigned	<u>928,311</u>	<u>882,270</u>
Total fund balances	<u>928,311</u>	<u>4,522,346</u>
Total liabilities and fund balances	<u>\$ 928,311</u>	<u>4,522,346</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

LEGISLATIVE SERVICE BUREAU**STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES—
GENERAL FUND**

<i>Years Ended June 30,</i>	<i>2013</i>	<i>2012</i>
Revenues:		
Other	\$ 9,675	158
Total revenues	<u>9,675</u>	<u>158</u>
Expenditures:		
Personnel services	562,105	572,434
Contractual services	734,464	716,450
Supplies and materials	15,089	1,852
Capital outlay	60,266	43,504
Contributions to the House	2,517,170	2,550,000
Contributions to the Senate	4,562,452	1,250,000
Debt service (capitalized leases):		
Principal	40,582	40,128
Interest	<u>4,417</u>	<u>8,349</u>
Total expenditures	<u>8,496,545</u>	<u>5,182,717</u>
Deficiency of revenues over expenditures	<u>(8,486,870)</u>	<u>(5,182,559)</u>
Other funding sources:		
Appropriations from the State of Oklahoma	<u>4,892,835</u>	<u>4,892,835</u>
Net changes in fund balances	<u>(3,594,035)</u>	<u>(289,724)</u>
Fund balances, beginning of year	<u>4,522,346</u>	<u>4,812,070</u>
Fund balances, end of year	<u>\$ 928,311</u>	<u>4,522,346</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

LEGISLATIVE SERVICE BUREAU

**RECONCILIATION OF THE BALANCE SHEETS—GENERAL FUND TO
THE STATEMENTS OF NET POSITION**

<i>Years Ended June 30,</i>	<i>2013</i>	<i>2012</i>
Fund balances	\$ 928,311	4,522,346
Capital assets reported in the statements of net position are not financial resources and therefore are not reported in the governmental funds.	25,556	73,820
Certain liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:		
Compensated absences	(62,587)	(63,748)
Capital lease obligations	<u>(21,858)</u>	<u>(62,440)</u>
Net position	<u>\$ 869,422</u>	<u>4,469,978</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

LEGISLATIVE SERVICE BUREAU

RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES—GENERAL FUND TO THE STATEMENTS OF ACTIVITIES

<i>Years Ended June 30,</i>	<i>2013</i>	<i>2012</i>
Net changes in fund balances	\$ (3,594,035)	(289,724)
Amounts reported for governmental activities in the statements of activities are different because:		
Governmental funds report capital outlays as expenditures while government-wide activities report depreciation expense to allocate those expenditures over the lives of the assets:		
Depreciation expense	(52,431)	(53,949)
Capital asset purchases capitalized	4,167	2,414
In the statements of activities, the amount of the capital lease payment that represents principal payments is used to reduce the capital leases payable:		
Principal payments on capital leases	40,582	40,128
Some expenses reported in the statements of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:		
Accrued compensated absences	<u>1,161</u>	<u>(4,818)</u>
Changes in net position, per the statements of activities	<u>\$ (3,600,556)</u>	<u>(305,949)</u>

See Independent Auditors' Report.

See accompanying notes to financial statements.

LEGISLATIVE SERVICE BUREAU

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

(1) **NATURE OF THE ORGANIZATION**

The Legislative Service Bureau (the “Bureau”) was created to serve, in various capacities, the Oklahoma House of Representatives (the “House”) and the Oklahoma State Senate (the “Senate”). It is responsible for such services as directed by the Speaker of the House and the President Pro Tempore of the Senate.

Financial Reporting Entity

The financial statements of the Bureau have been prepared in conformity with accounting principles generally accepted in the United States as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Bureau’s accounting policies are described below.

Fund Accounting and Budgetary Information

The Bureau is included in the General Fund—Government of the State of Oklahoma (the “State”). The accompanying financial statements are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and the General Fund of the State attributable to the transactions of the Bureau and not those of the State. The Bureau is funded by an appropriation from unallocated general funds earmarked for State government. Appropriations are available for expenditures for a period of 30 months from the date the appropriations are approved. It is the practice of the Bureau to utilize unexpended appropriations from the prior year before expending current-year appropriations. The Bureau is not required by statute to prepare a line-item budget. Accordingly, a schedule of revenues, expenditures, and changes in fund balances—budget to actual is not presented herein.

In accordance with GASB, the Bureau’s financial statements should include the operations of all organizations for which the Bureau has financial accountability. The Bureau has determined there are no other organizations for which it has financial accountability.

(2) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Presentation and Basis of Accounting

The government-wide financial statements (i.e., the statements of net position and the statements of activities) report information on all of the nonfiduciary activities of the government. Governmental activities are supported by taxes and intergovernmental revenues.

See Independent Auditors’ Report.

LEGISLATIVE SERVICE BUREAU

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Basis of Presentation and Basis of Accounting, Continued

The statements of activities demonstrate the degree to which the direct expenses are offset by program revenues. Direct expenses are those that are clearly identifiable with the Bureau's grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The General Fund is used to account for the Bureau's expendable financial resources and related liabilities. All transactions related to the general administration of the Bureau are accounted for in this fund.

The fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Available is defined by the Bureau as 60 days after year-end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when the liability has matured.

Only current assets and current liabilities are included on the balance sheets. The operations present sources and uses of available spendable resources during a given period of time.

The Bureau receives certain monies that are designated as to how they can be transferred or used. The Bureau retains full control of all monies to achieve the designated purposes.

Cash

Cash includes amounts on deposit with the Office of the State Treasurer (the "State Treasurer"), which is responsible for ensuring proper collateralization and insurance on such funds. The State Treasurer requires that financial institutions deposit collateral securities to secure the deposits of the State in each such institution. The amount of collateral securities to be pledged for the security of public deposits shall be established by rules and regulations promulgated by the State Treasurer.

See Independent Auditors' Report.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Capital Assets

Capital assets are recorded as expenditures in the statements of revenues, expenditures, and changes in fund balances—General Fund, but are capitalized in the statements of net position. Capital assets are stated at actual or estimated historical cost in the statements of net position.

Capital assets are defined as assets with initial costs of \$500 or more. Depreciation is computed on the straight-line method over the estimated useful lives:

Computer equipment and software	3 years
Office equipment	5 years
Furniture	7 years

Upon disposition, the cost and related accumulated depreciation are removed from the respective accounts, and the resulting gain or loss, if any, is recorded.

Compensated Absences

Employees earn annual vacation leave based upon their start date and years of service. Unused annual leave may be accumulated to a maximum of 240 hours for employees with less than 5 years of service and a maximum of 480 hours for employees with 5 or more years of service. All accrued annual leave is payable upon termination, resignation, retirement, or death. The General Fund records expenditures when employees are paid for leave. Accrued annual leave is considered a long-term liability and is included in the statements of net position. Sick leave does not vest to the employee and therefore is not recorded as a liability.

Capital Lease Obligations

The Bureau entered into capital lease obligations, as more fully described in Note 6 to the financial statements. The amounts reflected in the statements of net position are the principal balances due as of June 30, 2013 and 2012.

Contribution Expense

The Bureau records as contribution expense assets and/or services that are paid to other state agencies.

See Independent Auditors' Report.

(2) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Equity Classifications

Government-Wide Financial Statements

Equity is classified as net position displayed in three components:

- a. Net investment in capital assets—consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings that are attributable to the acquisition or improvement of those assets.
- b. Restricted net position—consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position—all other net position that does not meet the definition of “net investment in capital assets” or “restricted net position.”

As of June 30, 2013 and 2012, the Bureau did not have any restricted net position.

Fund Financial Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned, and unassigned. These classifications are defined as:

- a. Nonspendable fund balance—The nonspendable fund balance classification includes amounts that cannot be spent because they are either i) not in spendable form or ii) legally or contractually required to be maintained intact.
- b. Restricted fund balance—The restricted fund balance classification should be reported when constraints placed on the use of resources are either i) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or ii) imposed by law through constitutional provisions or enabling legislation.
- c. Committed fund balance—The committed fund balance classification reflects specific purposes pursuant to constraints imposed by formal action of the Bureau’s highest level of decision-making authority. Also, such constraints can only be removed or changed by the same form of formal action.

See Independent Auditors’ Report.

LEGISLATIVE SERVICE BUREAU

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Equity Classifications, Continued

Fund Financial Statements, Continued

- d. Assigned fund balance—The assigned fund balance classification reflects amounts that are constrained by the Bureau’s intent to be used for specific purposes, but meet neither the restricted nor committed forms of constraint. Assigned funds cannot cause a deficit in the unassigned fund balance.

For purposes of an assigned fund balance, the Bureau has given authority to the Speaker of the House and the President Pro Tempore of the Senate to assign state appropriations received by the Bureau for specific purposes.

- e. Unassigned fund balance—The unassigned fund balance classification is the residual classification for the General Fund only. It is also where negative residual amounts for all other governmental funds would be reported. An unassigned fund balance essentially consists of excess funds that have not been classified in the other four fund balance categories mentioned above.

It is the Bureau’s policy to first use the restricted fund balance prior to the use of the unrestricted fund balance when an expense is incurred for purposes for which both a restricted and an unrestricted fund balance are available. The Bureau’s policy for the use of the unrestricted fund balance amounts require that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

The following table shows the fund balance classifications as shown on the governmental funds balance sheets in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54) for the years ended June 30:

	<u>2013</u>	<u>2012</u>
Fund balance:		
Assigned:		
State appropriations assigned to the House	\$ -	1,032,567
State appropriations assigned to the Senate	-	2,607,509
Total fund balance assigned	-	3,640,076
Unassigned:		
State appropriations	928,311	882,270
	<u>\$ 928,311</u>	<u>4,522,346</u>

See Independent Auditors’ Report.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting is used, under which purchase orders, contracts, and other commitments for the expenditures of resources are recorded as expenditures of the applicable funds. This is an extension of the formal budgetary integration in the General Fund. Encumbrances do not represent any further constraint on the use of amounts than is already communicated by governmental fund balance classification as restricted, committed, or assigned. As of June 30, 2013, there were no such encumbrances outstanding.

Income Taxes

The income of the Bureau, as an integral part of the State, is exempt from federal and state income taxes.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements* (GASB 62). The objective of GASB 62 is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedures.

The requirements in GASB 62 will improve financial reporting by contributing to GASB's efforts to codify all sources of accounting principles generally accepted in the United States for state and local governments so that they derive from a single source. GASB 62 is effective for financial statements for periods beginning after December 15, 2011. The Bureau adopted GASB 62 effective July 1, 2012. There were no significant changes to the financial statements as a result of implementing GASB 62.

See Independent Auditors' Report.

(2) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Recent Accounting Pronouncements, Continued

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63). The objective of GASB 63 is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The pronouncement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011. The Bureau adopted GASB 63 effective July 1, 2012. The adoption of the statement required the Bureau to adopt the term "net position" as required. In addition, as required by GASB 63, the Bureau determined that as of June 30, 2013 and 2012, there were no items of deferred outflows of resources or deferred inflows of resources, as presently defined, to be reported.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). The objective of GASB 65 is to establish accounting and financial reporting standards that reclassify certain items that were previously reported as assets or liabilities as deferred outflows of resources or deferred inflows of resources; and recognize certain items that were previously reported as assets and liabilities as outflows of resources or inflows of resources. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans* (GASB 67). GASB 67 addresses reporting by pension plans that administer benefits for governments, outlines basic framework for the separately issued financial reports of defined benefit pension plans, and details note disclosure requirements for defined benefit and defined contribution pension plans. This statement is effective for financial statements for periods beginning after June 15, 2013.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68). The primary objective of GASB 68 is to improve accounting and financial reporting by state and local governments for pensions. GASB 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. For defined benefit pensions, GASB 68 identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This statement is effective for financial statements for periods beginning after June 15, 2014.

See Independent Auditors' Report.

LEGISLATIVE SERVICE BUREAU

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Date of Management's Review of Subsequent Events

Management has evaluated subsequent events through January 10, 2014, the date which the financial statements were available to be issued, and determined that no subsequent events have occurred which require adjustment to or disclosure in the financial statements.

(3) CASH BALANCES

At June 30, 2013 and 2012, the Bureau maintained cash balances of approximately \$928,000 and \$4,522,000, respectively, with the State Treasurer. The Bureau's deposits with the State Treasurer are pooled with the funds of other state agencies and then, in accordance with statutory limitation, placed in banks or invested as the State Treasurer may determine. Deposits are fully insured or collateralized with securities held by an agent of the State, in the State's name.

(4) CAPITAL ASSETS

The following summarizes the activity in capital assets during the years ended June 30, 2013 and 2012:

	Balance at June 30, 2012	Additions	Disposals	Balance at June 30, 2013
Capital assets:				
Computer equipment and software	\$ 311,983	4,167	(66,449)	249,701
Office equipment	372,716	-	(32,732)	339,984
Furniture	8,889	-	-	8,889
Total capital assets	<u>693,588</u>	<u>4,167</u>	<u>(99,181)</u>	<u>598,574</u>
Accumulated depreciation:				
Computer equipment and software	292,084	16,159	(66,449)	241,794
Office equipment	319,187	35,880	(32,732)	322,335
Furniture	8,497	392	-	8,889
Total accumulated depreciation	<u>619,768</u>	<u>52,431</u>	<u>(99,181)</u>	<u>573,018</u>
Net capital assets	<u>\$ 73,820</u>	<u>(48,264)</u>	<u>-</u>	<u>25,556</u>

See Independent Auditors' Report.

LEGISLATIVE SERVICE BUREAU

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) CAPITAL ASSETS, CONTINUED

	Balance at June 30, 2011	Additions	Disposals	Balance at June 30, 2012
Capital assets:				
Computer equipment and software	\$ 309,569	2,414	-	311,983
Office equipment	372,716	-	-	372,716
Furniture	8,889	-	-	8,889
Total capital assets	<u>691,174</u>	<u>2,414</u>	<u>-</u>	<u>693,588</u>
Accumulated depreciation:				
Computer equipment and software	277,314	14,770	-	292,084
Office equipment	280,418	38,769	-	319,187
Furniture	8,087	410	-	8,497
Total accumulated depreciation	<u>565,819</u>	<u>53,949</u>	<u>-</u>	<u>619,768</u>
Net capital assets	<u>\$ 125,355</u>	<u>(51,535)</u>	<u>-</u>	<u>73,820</u>

A summary of capitalized lease assets included above is as follows as of June 30:

	2013		
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Capital Assets</u>
Office equipment	<u>\$ 176,494</u>	<u>(158,845)</u>	<u>17,649</u>
	2012		
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Capital Assets</u>
Office equipment	<u>\$ 209,226</u>	<u>(156,278)</u>	<u>52,948</u>

See Independent Auditors' Report.

LEGISLATIVE SERVICE BUREAU**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

(4) CAPITAL ASSETS, CONTINUED

The Bureau has no significant infrastructure assets.

Capital assets are valued at cost and are depreciated using the straight-line method over their estimated useful lives, which is 5 years for office equipment.

The depreciation expense, by program activity, for the years ended June 30 is allocated as follows:

	<u>2013</u>	<u>2012</u>
General government support services	\$ <u>52,431</u>	<u>53,949</u>

(5) LONG-TERM LIABILITIES

Long-term liability activity for the years ended June 30, 2013 and 2012, was as follows:

	<u>Balance at June 30, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2013</u>	<u>Amount Due Within 1 Year</u>
Compensated absences	\$ 63,748	31,247	(32,408)	62,587	35,049
Capital lease	<u>62,440</u>	<u>-</u>	<u>(40,582)</u>	<u>21,858</u>	<u>21,858</u>
	<u>\$ 126,188</u>	<u>31,247</u>	<u>(72,990)</u>	<u>84,445</u>	<u>56,907</u>

	<u>Balance at June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2012</u>	<u>Amount Due Within 1 Year</u>
Compensated absences	\$ 58,930	30,807	(25,989)	63,748	36,337
Capital lease	<u>102,568</u>	<u>-</u>	<u>(40,128)</u>	<u>62,440</u>	<u>40,582</u>
	<u>\$ 161,498</u>	<u>30,807</u>	<u>(66,117)</u>	<u>126,188</u>	<u>76,919</u>

See Independent Auditors' Report.

LEGISLATIVE SERVICE BUREAU

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) CAPITAL LEASE OBLIGATIONS

The Bureau has entered into agreements to lease office equipment. The agreements are, in substance, purchases (capital leases) and are reported as capital lease obligations.

The following schedule represents, by fiscal year, future minimum lease payments for the capital leases as of June 30, 2013:

2014	\$	22,500
Less interest		<u>(642)</u>
	\$	<u>21,858</u>

Changes in the lease obligations for the years ended June 30 were as follows:

	<u>2013</u>	<u>2012</u>
Balance, beginning of year	\$ 62,440	102,568
Principal payments	<u>(40,582)</u>	<u>(40,128)</u>
Balance, end of year	<u>\$ 21,858</u>	<u>62,440</u>

During 2012, one of the capital leases expired. The Bureau did not enter into a new capital lease agreement but continued to lease the equipment on a monthly basis. These additional payments totaled \$695 and \$4,868 for 2013 and 2012, respectively.

(7) RETIREMENT PLAN

Plan Description

The Bureau contributes to the Oklahoma Public Employees Retirement Plan (the "Retirement Plan"), a cost-sharing, multiple-employer public employee retirement system administered by the Oklahoma Public Employees Retirement System (the "System"). The Retirement Plan provides retirement, disability, and death benefits to plan members and beneficiaries. The benefit provisions are established and may be amended by the Oklahoma Legislature. Title 74 of the Oklahoma Statutes, Sections 901 through 932 and 935, as amended, assigns the authority for management and operation of the Retirement Plan to the Board of Trustees of the System (the "Board"). The System issues a publicly available annual financial report that includes financial statements and required supplementary information for the Retirement Plan. That annual report may be obtained by writing to the Oklahoma Public Employees Retirement System, 5801 N. Broadway Extension, Suite 400, Oklahoma City, Oklahoma 73118 or by calling 1-800-733-9008.

See Independent Auditors' Report.

LEGISLATIVE SERVICE BUREAU

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) RETIREMENT PLAN, CONTINUED

Funding Policy

Retirement Plan members and the Bureau are required to contribute at a rate set by statute. The contribution requirements of Retirement Plan members and the Bureau are established and may be amended by the Oklahoma Legislature. The contribution rates are as follows:

Fiscal Year 2013		Fiscal Year 2012	
State Employees	Bureau	State Employees	Bureau
<u>All Salaries</u>	<u>All Salaries</u>	<u>All Salaries</u>	<u>All Salaries</u>
3.5%	16.5%	3.5%	16.5%

Fiscal Year 2011	
State Employees	Bureau
<u>All Salaries</u>	<u>All Salaries</u>
3.5%	15.5%

The Bureau's contributions to the Retirement Plan for the years ended June 30, 2013, 2012, and 2011, were approximately \$64,000, \$65,000, and \$76,000, respectively, and were equal to its required contributions for each year.

(8) OKLAHOMA STATE EMPLOYEES DEFERRED COMPENSATION PLAN AND DEFERRED SAVINGS INCENTIVE PLAN

Deferred Compensation Plan

The State offers its employees a Deferred Compensation Plan (the "Plan") as authorized by Section 457 of the Internal Revenue Code (IRC), as amended by the Tax Reform Act of 1986, and in accordance with the provisions of Sections 1701 through 1706 of Title 74 of the Oklahoma Statutes.

The supervisory authority for the management and operation of the Plan is the Board.

The Plan is available to all State employees, as well as any elected officials receiving a salary from the State. Participants may direct the investment of their contributions in available investment options offered by the Plan. The minimum contribution amount is the equivalent of \$25 per month, and participants are immediately 100% vested in their respective accounts. All interest, dividends, and investment fees are allocated to participants' accounts.

See Independent Auditors' Report.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(8) **OKLAHOMA STATE EMPLOYEES DEFERRED COMPENSATION PLAN AND
DEFERRED SAVINGS INCENTIVE PLAN, CONTINUED**

Deferred Compensation Plan, Continued

Participants may defer until future years up to the lesser of 100% of their compensation as defined by Plan documents or the maximum amount allowed each year as determined by the Internal Revenue Service, currently \$17,500.

The Plan offers a catch-up program to participants, which allows them to defer annually for the 3 years prior to their year of retirement, up to twice that plan year's deferral limit. The amount of additional contributions in excess of the normal maximum contributions to the Plan is also limited to contributions for years in which the participant was eligible but did not participate in the Plan or the difference between contributions made and the maximum allowable level. To be eligible for the catch-up program, the participant must be within 3 years of retirement with no reduced benefits.

Participants age 50 or older may make additional contributions annually, subject to certain limits.

Deferred compensation benefits are paid to participants or beneficiaries upon termination, retirement, death, or unforeseeable emergency. Such benefits are based on a participant's account balance and are disbursed in a lump sum or periodic payments at the option of the participant or beneficiaries in accordance with the Plan's provisions.

Effective January 1, 1998, the Board established a trust and a trust fund covering the Plan's assets, pursuant to federal legislation enacted in 1996 requiring public employers to establish such trusts for plans meeting the requirements of Section 457 of the IRC no later than January 1, 1999. Under the terms of the trust, the corpus or income of the trust fund may be used only for the exclusive benefit of the Plan's participants and their beneficiaries. Prior to the establishment of the trust, the Plan's assets were subject to the claims of general creditors of the State. The Board acts as trustee of the trust. The participants' accounts are invested in accordance with the investment elections of the participants. The Board is accountable for all deferred compensation received, but has no duty to require any compensation to be deferred or to determine that the amounts received comply with the Plan or to determine that the trust fund is adequate to provide the benefits payable pursuant to the Plan.

Further information may be obtained from the Oklahoma State Employees Deferred Compensation Plan's audited financial statements for the years ended June 30, 2013 and 2012. The Bureau believes that it has no liabilities with respect to the Plan.

See Independent Auditors' Report.

(8) **OKLAHOMA STATE EMPLOYEES DEFERRED COMPENSATION PLAN AND DEFERRED SAVINGS INCENTIVE PLAN, CONTINUED**

Deferred Savings Incentive Plan

Effective January 1, 1998, the State established the Oklahoma State Employees Deferred Savings Incentive Plan (the "Savings Incentive Plan") as a money purchase pension plan pursuant to IRC Section 401(a). The Savings Incentive Plan and its related trust are intended to meet the requirements of IRC Sections 401(a) and 501(a).

Any qualified participant who is a State employee and is an active participant in the Plan is eligible for a contribution of the amount determined by the Oklahoma Legislature, currently the equivalent of \$25 per month. Participation in the Savings Incentive Plan is automatic in the month of participation in the Plan and is not voluntary.

Upon cessation of contributions to the Plan, termination of employment with the State, retirement, or death, a participant will no longer be eligible for contributions from the State into the Savings Incentive Plan. Participants are at all times 100% vested in their Savings Incentive Plan account. Participant contributions are not required or permitted. Qualified participants may make rollover contributions to the Savings Incentive Plan, provided such rollover contributions meet applicable requirements of the IRC. Plan participants may direct the investment of the contributions in available investment options offered by the Savings Incentive Plan. All interest, dividends, and investment fees are allocated to the participants' accounts.

Savings Incentive Plan benefits are paid to participants or beneficiaries upon termination, retirement, or death. Such benefits are based on a participant's account balance and are disbursed in a lump sum or periodic payments or may be rolled over to a qualified plan at the option of the participant or beneficiaries.

(9) **OKLAHOMA LEGISLATURE CONTRIBUTIONS**

During the years ended June 30, 2013 and 2012, the Bureau contributed \$4,562,452 and \$1,250,000, respectively, to the Senate and \$2,517,170 and \$2,550,000, respectively, to the House to be utilized by the Senate and the House for operational activities. The \$7,079,622 and \$3,800,000, respectively, was paid from state appropriations of the Bureau.

LEGISLATIVE SERVICE BUREAU

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(10) OTHER STATE AGENCY PAYMENTS

The Bureau has paid other state agencies for administrative and other services during the current year, which are included in contractual services. The following is a breakdown of contractual services paid to various state agencies as of June 30:

	<u>2013</u>	<u>2012</u>
Division of Capital Assets Management:		
Risk Management Division	\$ <u> -</u>	<u> 557</u>
Employees Benefit Council	-	188
Office of Management and Enterprise Services	8,319	7,647
CompSource Oklahoma	3,541	4,076
Oklahoma State Senate	<u>39,800</u>	<u>35,000</u>
	<u>\$ 51,660</u>	<u>47,468</u>

(11) RISK MANAGEMENT

The Risk Management Division of the Division of Capital Assets Management (the “Division”) is empowered by the authority of Title 74 O.S. Supp. 1993, Section 85.34 et seq. The Division is responsible for the acquisition and administration of all insurance purchased by the State or administration of any self-insurance plans and programs adopted for use by the State for certain organizations and bodies outside of State government, at the sole expense of such organizations and bodies.

The Division is authorized to settle claims of the State and shall govern the dispensation and/or settlement of claims against a political subdivision. In no event shall self-insurance coverage provided by the State, an agency, or other covered entity exceed the limitations on the maximum dollar amount of liability specified by the Oklahoma Government Tort Claims Act, as provided by Title 51 O.S. Supp. 1988, Section 154. The Division oversees the collection of liability claims owed to the State incurred as the result of a loss through the wrongful or negligent act of a private person or other entity.

The Division is also charged with the responsibility to immediately notify the Office of the Attorney General of any claims against the State presented to the Division. The Division purchases insurance policies through third-party insurance carriers that ultimately inherit the risk of loss. The Division annually assesses each state agency, including the Bureau, their pro rata share of the premiums purchased. The Bureau has no obligations to any claims submitted against the Bureau.

See Independent Auditors’ Report.

LEGISLATIVE SERVICE BUREAU

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(12) CONTINGENCIES

The Bureau is involved in legal proceedings in the normal course of operations, none of which, in the opinion of the Bureau's leadership, will have a material effect on the financial statements of the Bureau.

See Independent Auditors' Report.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Legislative Service Bureau

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the General Fund of the Legislative Service Bureau (the "Bureau") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Bureau's basic financial statements, and have issued our report thereon dated January 10, 2014. Our report includes an explanatory paragraph regarding management's discussion and analysis, an explanatory paragraph stating that the financial statements of the Bureau are intended to present the financial position and changes in financial position of only that portion of the governmental activities and the General Fund of the State of Oklahoma attributable to the transactions of the Bureau, and an explanatory paragraph stating that the Bureau is not required by statute to prepare a line-item budget. In addition, our report includes an explanatory paragraph to emphasize the adoption of Governmental Accounting Standards Board Statement No. 63 by the Bureau.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Bureau's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bureau's internal control. Accordingly, we do not express an opinion on the effectiveness of the Bureau's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

(Continued)

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS, CONTINUED**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bureau's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Bureau's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Bureau's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Finley & Cook, PLLC

Shawnee, Oklahoma
January 10, 2014